

DEPARTMENT OF INDUSTRIAL RELATIONS
OFFICE OF THE DIRECTOR
P. O. Box 420603
San Francisco, CA 94142



(415) 703-4600

DATE: November 18, 1999

TO: All Insurers Authorized To Transact Workers' Compensation in California

SUBJECT: User Funding Assessment and Fraud Surcharge

If you or any of your carriers reported direct workers' compensation premiums to the Department of Insurance for Calendar Year 1998, an invoice for your advance(s) against assessment, and/or surcharge on the following is enclosed:

- the \$9,087,000 Workers' Compensation "User Funding" Assessment for 1999-2000, and
- the \$29,996,250 surcharge approved by the Fraud Assessment Commission for 1999-2000

"User Funding" Assessment

Labor Code Section 62.5, the provision that created the Workers' Compensation Administration Revolving Fund to fund a portion of the administrative costs of California's workers' compensation programs, also known as the "User Funding Assessment," sunsetted as originally enacted effective January 1, 1999. In the 1999 session, the Legislature reenacted Section 62.5, effective January 1, 2000. To implement the reenacted assessment the Division will be adopting emergency regulations, effective on or shortly after January 1, 2000. Those regulations will be essentially unchanged except for the provision of the January 1, 2000 reenactment date.

In order to allow you to begin programming your computers to begin assessing and collecting the assessment for policies incepting on or after January 1, 2000, we are issuing the enclosed invoice on the basis of the statutory and regulatory authority that will be in place for the new year.

Fraud Surcharge

The fraud surcharge is established, pursuant to Labor Code Section 62.6, by the Fraud Commission, which authorized an assessment of \$29,996,250 for the 1999-2000 fiscal year.

Payments

Please note that the **first installment is due on February 1, 2000** with the balance due April 1, 2000.

Methodology

Labor Code sections 62.5 and 62.6 require that the user funding assessment and fraud surcharge be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment has been calculated by multiplying the insured employer user funding assessment factor, **0.000269** by your total 1998 California direct written premium, and, pursuant to regulations [Title 8, CCR, Subchapter 2.06, Article 1, §15606(b)], multiplying the result by the ratio of

the expected total current year (1999) premium (\$6,900,000,000) to the total direct 1998 written workers' compensation premium of all insurers (\$6,666,938,620) or 1.034957781%. As you will see, the user funding assessment factor has declined significantly from the 1998/99 rate. This reduction is due to a one time reduction in funding in fiscal year 1999/2000 and is expected to return to a rate consistent with prior years in fiscal year 2000/2001.

Similarly, your share of the fraud surcharge has been calculated by multiplying insured employer fraud assessment factor, **0.002363**, by your total 1998 California direct written premium, and, pursuant to regulations [Title 8, CCR, Subchapter 2.06, Article 1, §15606(b)], multiplying the result by the ratio of the expected total current year (1999) premium (\$6,900,000,000) to the total direct 1998 written workers' compensation premium of all insurers (\$6,666,938,620) or 1.034957781%.

If you were a single carrier not part of an insurer group who reported data to the WCIRB on an individual company basis for 1998, your total California written premium for the purposes of these assessments is the amount reported for calendar year 1998 to the WCIRB, which reflects the premiums charged to policyholders with the exception that it excludes the impact of deductible credits, retrospective rating adjustments, and policyholder dividends. If you were part of an insurer group who reported data to the WCIRB for 1998, your total California written premium for the assessment purposes has been determined as the product of (a) the total 1998 written premium reported to the WCIRB on the aforementioned basis and (b) the ratio of your company's 1998 California written premium as reported in the 1998 Statutory Annual Statement (these amounts include the effect of deductible credits and retrospective rating adjustments) to the total 1998 Statutory Annual Statement California written premium reported for your insurer group as a whole.

All workers' compensation insurance policies issued by you with an inception date during calendar year 2000 must be surcharged to recover amounts advanced on behalf of policyholders. The user funding factor for 2000 policies, applied to the estimated annual assessable premium*, is **0.000269**, the same as that used to calculate your user funding assessment. Similarly, the fraud surcharge factor for 2000 policies, applied to the estimated annual assessable premium*, is **0.002363**, the same as that used to calculate your fraud surcharge.

* Assessable Premium = The premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts, expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return of policy holder dividend.

If you have questions, please call Linda Tejada, Program Manager in the Division of Workers' Compensation, at (415) 703-4671.

Yours truly,

Stephen J. Smith
Director

Enclosures

**California Department of Industrial Relations
1999-2000 Workers' Compensation
User Funding and Fraud Assessment Methodology**

Labor Code sections 62.5 and 62.6 require the Department to levy the total amounts of the User Funding assessment and Fraud surcharge between insured employers and self-insured employers in proportion to payroll paid in the most recent year for which information is available.

Step 1: Determine Total Assessments Required for 1999-2000

User Funding Assessment

Pursuant to the provisions of Labor Code Section 62.5,
the employer assessment required for 1999-2000 is:

\$9,087,000

Fraud Surcharge

The fraud surcharge is established by the Fraud Commission.
The Commission authorized an assessment for 1999-2000 of:

\$29,996,250

Step 2: Determine Payroll Amounts

Total payroll for insured employers:

\$254,502,508,792

(Source: California Workers' Compensation Insurance Rating Bureau,
[WCIRB] Policy Year 1996)

Payroll for self-insured employers:

\$95,208,835,649

(excluding State of California)

(Source: Department of Industrial Relations, Office of Self-Insurance Plans,
1997-98 Fiscal Year for Public Sector = \$41,861,590,961
1998 for Private Sector = \$53,347,244,688)

Payroll for State of California (including SCIF):

\$10,154,453,014

(Source: Department of Personnel Administration, Fiscal Year 1997-98)

Total payroll for self-insured employers

\$105,363,288,663

Total combined payroll

\$359,865,797,455

(Insured and self-insured employers)

Step 3: Calculate Proportional Payroll for Insured and Self-Insured Employers

Insured Employers:

Insured Employer Payroll =
Total Combined Payroll

\$254,502,508,792 = **70.72%**
\$359,865,797,455

Self-Insured Employers:

Self-Insured Employer Payroll =
Total Combined Payroll

\$105,363,288,663 = **29.28%**
\$359,865,797,455

**1999-2000 Workers' Compensation
User Funding and Fraud Assessment Methodology**

Step 4: Determine the total assessments for Insured and Self-Insured Employers

User Funding Assessment

Total Insured Employers Assessment:

Total Assessment Required x 70.72% = **\$9,087,000** x 70.72% = **\$6,426,326**

Increased by credits due individual insurers which
Undercollected against previous advances +3,419,638
[pursuant to CCR § 15609]
and decreased by the fund balance (7,990,177)
[pursuant to CCR § 15606(f)]

Resulting in the Final Insured Employers Assessment: **\$1,855,787**

Total Self-Insured Employers Assessment:

Total Assessment Required x 29.28% = **\$9,087,000** x 29.28% = **\$2,660,674**

This amount is increased by the Self Insurer \$102,632
Undercollection from the prior year

Resulting in the Final Self Insured Employers Assessment: **\$2,763,306**

Fraud Surcharge

Total Insured Employers Surcharge:

Total Surcharge Required x 70.72% = \$29,996,250 x 70.72% = **\$21,213,348**

Increased by credits due individual insurers which
Undercollected against previous advances +\$5,817,782
[pursuant to CCR § 15609]
and decreased by the fund balance (\$10,728,241)
[pursuant to CCR § 15606(f)]

Resulting in the Final Insured Employers Surcharge: **\$16,302,889**

Total Self-Insured Employers Surcharge:

Total Surcharge Required x 29.28% = \$29,996,250 x 29.28% = **\$8,782,902**

This amount is increased by the Self Insurer +\$156,242
Undercollection from the prior year

Resulting in the Final Self Insured Employers Assessment: **\$8,939,144**

**1999-2000 Workers' Compensation
User Funding and Fraud Assessment Methodology**

Step 5: Calculate the Assessment Factors for Insured and Self-Insured Employers

User Funding Assessment Factors

Insured Employers User Funding Assessment Factor:

$$\frac{\text{Total Insured Employer Assessment}}{\text{Total Direct Workers' Compensation Estimated Premium}} = \frac{\$ 1,855,787}{\$6,900,000,000} = .000269^*$$

(Source: W.C.I.R.B. estimate for 1999 Policy Year)

Self-Insured Employers User Funding Assessment Factor:

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amount of Workers' Compensation Indemnity Paid}} = \frac{\$ 2,763,306}{\$ 1,446,484,053} = .001910^*$$

Indemnity Paid

(Source: Dept. of Industrial Relations, Office of Self-Insurance Plans:
1997-98 Public Sector = \$622,868,901
1998 Private Sector = \$713,932,532
Department of Personnel Administration,
1997-98 State of California = \$109,682,620)

Fraud Surcharge Assessment Factor

Insured Employers Fraud Assessment Factor:

$$\frac{\text{Total Insured Employer Surcharge}}{\text{Total Direct Workers' Compensation Estimated Premium}} = \frac{\$ 16,302,889}{\$6,900,000,000} = .002363$$

(Source: W.C.I.R.B. estimate for 1999 Policy Year)

$$\frac{\text{Total Self-Insured Employer Surcharge}}{\text{Total Amount of Workers' Compensation Indemnity Paid}} = \frac{\$ 8,939,144}{\$ 1,446,484,053} = .006180$$

Indemnity Paid

(Source: Dept. of Industrial Relations, Office of Self-Insurance Plans:
1997-98 Public Sector = \$622,868,901
1998 Private Sector = \$713,932,532
Department of Personnel Administration,
1997-98 State of California = \$109,682,620)

**1999-2000 Workers' Compensation
User Funding and Fraud Assessment Methodology**

Step 6: Determine individual employer's User Funding Assessment

Individual Insured Employer User Funding Assessment:

Assessment Factor . **000269** x Employer's Expected Assessable Premium**

Individual Self-Insured Employer User Funding Assessment:

Assessment Factor . **001910** x Total Indemnity Paid by the Employer

Step 7: Determine individual employer's Fraud Surcharge

Individual Insured Employer Fraud Surcharge:

Assessment Factor . **002363** x Employer's Expected Assessable Premium**

Individual Self-Insured Employer Fraud Surcharge:

Assessment Factor . **006180** x Total Indemnity Paid by the Employer

* The reduction in the 1999/2000 assessment rate for user funding is due to a one time reduction in funding in fiscal year 1999/2000. It is anticipated that the 2000/2001 assessment will reflect a rate closer to prior years.

** Assessable Premium = The premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts, expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return of policy holder dividend.